



landscape  
resilience fund

The Landscape Resilience Fund's  
**Environmental,  
Social and  
Governance (ESG)**  
Guidelines

landscape resilience fund

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# LRF ESG Guidelines

## 1.1 Introduction

This document describes the approach and requirements of the Landscape Resilience Fund (LRF) for identifying, managing, and monitoring the environmental, social, and governance (ESG) risks of the activities it funds.

This document will be reviewed and updated regularly, to improve performance in this regard over time, and remain aligned with WWF and internationally-recognised best practices.

This ESG Guidelines document is a component of the LRF's Environmental & Social Management System (ESMS).

## 1.2 Landscape Resilience Fund

The Landscape Resilience Fund (LRF) intends to contribute to climate change adaptation and promote sustainable development. The LRF further aims to contribute to the reduction of greenhouse gas emissions, to the conservation of biodiversity, as well as to additional positive environmental and social impacts, including the empowerment of women. Based on an integrated landscape approach, the LRF intends to generate durable positive development and conservation outcomes. It hereby combines environmental, social, and economic aspects. The LRF will support activities that promote the design and implementation of integrated landscape development in developing countries, and will provide financing (loans and grants) to small and medium enterprises (SMEs) that support climate-resilient agriculture and forestry practices.

In this context, a landscape is defined as “a socio-ecological system that consists of natural and/or human-modified ecosystems, which is influenced by distinct ecological, historical, economic and socio-cultural processes and activities”<sup>1</sup>. In practice, landscapes are often demarcated according to jurisdictional boundaries, but can also be determined according to shared environmental and social challenges, production of key commodities, physical geographic features, or the area where an implementation partner can provide assistance. When defining a landscape's borders, it is important to engage all relevant stakeholders, and ensure a shared agreement/understanding.

To achieve impact, the LRF supports viable business models that are aligned with landscape environmental and social development context and objectives. The LRF therefore finances SMEs/projects that can lay out a credible plan on how such funding

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<sup>1</sup> Little Sustainable Landscape Book (WWF et al., 2015)

will lead to financial self-sufficiency and/or additional private sector return-seeking investment. At the same time, the LRF aims to set a precedent and provide 'additionality', financing SMEs/projects that would not receive comparable funding from other sources, thereby spurring further investment. As such, a lack of track record does not preclude an SME from receiving LRF funding. Embedding such SME/project financing in a landscape approach that provides a platform to multiple stakeholders, facilitates collaborative planning, and reconciles competing natural resource demands is instrumental to achieving long-term adaptation outcomes and mitigating risk. The link between SME financing and landscape development is central to the LRF impact strategy, and is integrated in all fund processes.

The LRF concept was co-developed by WWF and South Pole Group. The LRF is managed by South Pole, and WWF acts as an advisor and service provider for project preparation, landscape development and implementation, as well as for ESG risk management.

### 1.3 Purpose and scope

It is of utmost importance to the LRF that no individuals, groups of people, or plant or animal species and ecosystems suffer preventable negative consequences due to the activities of the LRF. To uphold this principle, a comprehensive ESMS is used to identify, minimise and manage ESG risks for the LRF. This is specifically designed for the LRF and based on international best practice, including WWF's internal approach.

The ESMS applies to all LRF-funded projects and activities, including all affiliated and external parties involved in their delivery. Provisions and obligations arising from the ESMS are contractually fixed in any relevant funding or service relationship that the LRF enters into.

Many SMEs may not meet these requirements at the point of investment, and in these situations the LRF will define a timeframe within which compliance must be achieved. Legal covenants that stipulate the required timeframe for compliance, and the consequences if this timeframe is not met, will be included in the legally binding transaction documents, e.g. loan agreements.

The implementation of the ESMS will take into account the size, capacity, and potential risk level of SMEs, to ensure comprehensive risk management while avoiding overburdening SMEs with disproportionate requirements. The LRF can provide technical assistance funding to increase SME ESG capacity where required.

### 1.4 Commitments

SMEs financed by the LRF must commit to the following:

- Comply with the IFC Social and Environmental Performance Standards (IFC PS)<sup>2</sup>
- Follow the relevant World Bank Group Environmental, Health, and Safety Industry Sector Guidelines<sup>3</sup>
- Comply with all relevant national and local laws and regulations
- Align with the United Nations Guiding Principles on Business and Human Rights<sup>4</sup>
- SMEs must work towards ensuring that all direct employees, contracted farmers, and other suppliers receive a living income
- Where SMEs produce commodities, they will be expected to hold, or be working towards an internationally-recognised sustainable production certification (e.g. Rainforest Alliance, Fairtrade, FSC, etc.). SMEs that source commodities will be expected to source certified commodities. SMEs where this is not possible will be considered on a case-by-case basis.
- Where SMEs produce carbon credits, they will be expected to follow internationally recognised schemes such as VCS+CCB or Gold Standard.

All SMEs must demonstrate that they do the following, as required under the IFC PS:

- Have a robust environmental and social management system (ESMS), which integrates risk management plans and standards into their core operations
- Have a comprehensive stakeholder engagement process
- Secure Free, Prior, and Informed Consent (FPIC) for any activities that impact land or resources used by Indigenous Peoples
- Have an accessible grievance mechanism

The LRF will not fund:

- Any activities on the LRF exclusion list (see section 1.9)
- Any activities that destroy or degrade natural habitat
- Any activities that may result in involuntary resettlement

## 1.5 Social aspects

### Human rights

The LRF recognises the responsibility of businesses and NGOs to respect human rights, and seeks to avoid infringement on the human rights of others, and to address adverse human rights impacts. The LRF commits to the following principles from WWF's internal Environmental & Social Safeguards Framework (ESSF) in all its landscape development and project implementation activities:

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<sup>2</sup>

[www.ifc.org/wps/wcm/connect/Topics\\_Ext\\_Content/IFC\\_External\\_Corporate\\_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards](http://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards)

<sup>3</sup>

[www.ifc.org/wps/wcm/connect/topics\\_ext\\_content/ifc\\_external\\_corporate\\_site/sustainability-at-ifc/policies-standards/ehs-guidelines/ehsguidelines](http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/ehs-guidelines/ehsguidelines)

<sup>4</sup> [www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR\\_EN.pdf](http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf)

- Respect Human Rights. Respect internationally proclaimed human rights and make sure that we do not contribute to infringements of human rights while pursuing our mission.
- Promote Human Rights Within Conservation Programs. Support and promote the protection and realization of human rights within the scope of our conservation projects.
- Protect the Vulnerable. Make special efforts to avoid harm to those who are vulnerable to infringements of their rights, and to support the protection and fulfilment of their rights within the scope of our conservation projects.
- Encourage Good Governance. Support the improvement of governance systems that can secure the rights of indigenous peoples and local communities in the context of our work on conservation and sustainable natural resource use, including elements such as legal, policy, and institutional frameworks, and procedures for equitable participation and accountability.

To follow these principles, the LRF ESMS due diligence and post-investment monitoring processes will identify, assess, monitor, and report on potential human rights impacts of all funded activities, particularly relating to land rights. Project design and technical assistance will be used to avoid and mitigate identified risks relating to human rights.

The LRF will require SMEs to follow the United Nations Guiding Principles on Business and Human Rights, specifically the second and third pillars aimed at businesses. To align with these principles, SMEs must make a policy commitment to identify and respect human rights aspects across their whole supply chain, and maintain an accessible and transparent grievance mechanism.

### **Child and forced labour**

Financing activities that involve child or forced labour is excluded under the LRF's exclusion list. Child or forced labour will be a risk in some of the supply chains where the LRF will operate, so this will be a key focus area for due diligence and monitoring. For intermediate actors in agricultural supply chains in particular, there are often risks relating to child or forced labour in their suppliers, and so all stages of the supply chain should be analysed.

IFC requirements are that investees “will not employ children in any manner that is economically exploitative or is likely to be hazardous or to interfere with the child's education, or to be harmful to the child's health or physical, mental, spiritual, moral, or social development”. The LRF goes further than this, by committing to not finance any activities involving child<sup>5</sup> or forced<sup>6</sup> labour.

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<sup>5</sup> Workers must be at least 15 years old, following the definition given in the ILO Fundamental Human Rights Conventions (Minimum Age Convention C138, Art. 2), unless local legislation specifies compulsory school attendance or the minimum age for working. In such cases the higher age will apply.

<sup>6</sup> Following the definition given in ILO Convention 29 on Forced Labor: any work or service not voluntarily performed that is exacted from an individual under threat of force or penalty. This covers any kind of involuntary or compulsory labor, such as indentured labor, bonded labor, or similar labor-contracting arrangements.

The LRF will include specific steps in its ESMS due diligence and post-investment processes for identifying labour risks, particularly during site visits to projects, looking at both an SME's immediate operations but also its whole supply chain.

## Gender

Gender equality is not only a fundamental human right, but a necessary foundation for a peaceful, prosperous and sustainable world. Women are more affected by poverty than men, and promoting gender equality and female empowerment is key to addressing extreme poverty, hunger, and malnutrition. Women play a key role within the agricultural sector, but they often have limited access to the resources required (inputs, land, credit), to the decision-making processes, or to the beneficial outputs.

Gender for the LRF is considered in two main ways: use of appropriate safeguards as part of the ESMS ('do no harm' or gender-sensitive), and integrating positive opportunities in project design ('doing good' or gender-responsive). Project design, which can be supported by LRF-funded technical assistance, will consider four main components to mitigate risks and enable women to benefit from new opportunities: 1) ensure equal opportunities and support, 2) guarantee good working conditions & safety, 3) provide fair payment and 4) facilitate work-life balance.

Safeguarding will follow the requirements of the IFC Performance Standards, particularly the guidance around labour rights, stakeholder engagement, and land rights. ESG due diligence will include specific steps to identify and address any risks relating to gender, including for direct employees, smallholders/suppliers, and local communities.

## 1.6 Landscape integration

Embedding financed SMEs within a sustainable landscape approach with aligned objectives and governance is a key part of the LRF approach.

### Landscape risk mapping

To build understanding of the selected landscapes, the LRF will identify and analyse ESG risks, threats, and trends, building on existing landscape information where available. Examples of relevant aspects to understand in the landscape could include the following:

- Environmental: historical land use trends, deforestation/habitat degradation risk, wildlife corridors, presence of red list species
- Social: historical land rights conflicts, child labour, presence of indigenous people, lack of jobs, food insecurity
- Governance: local corruption/bribery issues, un-transparent allocation of government concessions or harvesting rights, limited enforcement of environmental protection laws, public development priorities

- Climate: current vulnerability, future trends, how these aspects may interact with other ESG risks/trends

## **SME level**

The SME due diligence process will include consideration of potential commercial and ESG impact of aspects identified in the landscape risk mapping. This existing understanding of the wider context in which the SME operates will allow for a more comprehensive identification and management of risks. Landscape information can be useful for SME-level work in multiple ways:

- Risks and issues identified in the landscape, such as deforestation, food insecurity or child labour, can be prioritised in SME due diligence
- Trends and information about the landscape, such as economic developments or the presence of potential partners/funders, can inform the design of SME activities and LRF technical assistance support
- A detailed understanding of current and expected climate impacts will inform work required to increase resilience at SME level
- ESG risk analysis from SMEs, and other information from stakeholders in the landscape multi-stakeholder platform, will inform ESG work with future SMEs
- Consideration of how SME impacts and risks may interact with landscape risks/trends can inform the selection of which SMEs to finance

## **Landscape-level activities**

Information gathered during SME due diligence and post-investment activities will then be used to inform LRF landscape-level activities. Potential examples of this include:

- Having a detailed understanding of risks for a specific SME can be used to support understanding for other SMEs and the landscape more widely
- Identification of risks and challenges at SME level could be used to design a study or other enabling activity for the whole landscape, e.g. an analysis of a specific commodity supply chain
- SMEs will play an important role in multi-stakeholder platforms in contributing information about on-the-ground risks and challenges. This can include SMEs financed directly by LRF, but also input from other private sector actors in the MSP
- Expected impacts of SME activities will be integrated into landscape risk mapping/monitoring, and potential additive effects of nearby SMEs can be considered.

## **1.7 Indirect investments through financial intermediaries**

In addition to direct SME financing, the LRF can also provide loans to local financial intermediaries (FI) such as banks and microfinance institutions, for on-lending to farmers and micro-enterprises that would be too small to finance directly. For these indirect investments, the due diligence process will focus on:

- The robustness of the FI's ESMS in assessing and managing ESG risk of the final recipients, and the ESG capacity of the FI. The FI's ESMS will be required to be aligned with the LRF ESMS requirements.
- Ensuring that there are clear definitions/restrictions about the type of recipients/activities that the intermediary will finance, and suitable assessment and monitoring procedures in place.
- A review of the FI's other lending activities (FI links to LRF excluded activities will be considered on a case-by-case basis)

The LRF follows the guidance described in the IFC's Interpretation Note on Financial Intermediaries<sup>7</sup>. Where the ESMS or capacity of the FI is not strong enough, the LRF will provide clear guidance on how to implement/strengthen a comprehensive ESMS that complies with LRF commitments, and the LRF can fund capacity building activities.

### 1.8 Approval and review

The LRF ESG Guidelines [will be/has been] approved by the LRF Board, and will be communicated to all staff members, investees, and third parties acting on behalf of the LRF.

It will be reviewed annually as part of the internal and external reviews of the ESMS and its implementation.

The LRF will publicly disclose this Guidelines document.

### 1.9 Exclusion list

The exclusion criteria defines the companies, corporations or sectors that the LRF is not allowed to invest in. The exclusion criteria are based on the most important global environmental and social problems and major risks. Investments in companies and corporations whose behaviour and / or products are at the origin of such problems or which contribute significantly to such a problem are excluded.

The exclusion list is defined in the LRF Support Provisioning and Asset Management Guidelines, approved by the Board on 30<sup>th</sup> April 2021. The April 2021 list is copied here, but the LRF Support Provisioning and Asset Management Guidelines version is the definitive list, in case of updates.

The following sectors / activities are excluded from the investment universe:

#### Climate change

- Sourcing, processing and distribution of fossil fuels including Coal Mining and Oil & Gas Extraction

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<sup>7</sup> [www.ifc.org/IN-FI](http://www.ifc.org/IN-FI)



- Construction and operation of fossil fuel power plant (excluding utility companies)
- Manufacturing of automobiles, airplanes and other fossil-fuel based vehicles
- Airlines

### **Decline in biodiversity**

- Unsustainable forest management
- Unsustainable fishing
- Production and distribution of Persistent Organic Pollutants (POP) covered by the Stockholm Convention;

### **Nuclear energy**

- Construction and operation of nuclear power plants
- Manufacturing of nuclear reactors

### **Genetic engineering**

- Release of genetically modified organisms
- Therapeutic cloning in human stem cells

### **Raw materials**

- Mining and trading of mineral raw materials
- Operation of mines and other mining operations

### **Miscellaneous**

- Trade in threatened species according to CITES Appendix 1
- Animal testing for cosmetic or medicinal purposes
- Manufacturing and distribution of ozone-depleting substances
- Arms & Weapon industry and trade in weapons (including dual-use technology), related infrastructure or correctional facilities
- Manufacturing of alcohol, tobacco and smokers' products
- Production and distribution of pornography
- Projects which have the effect of violating human rights
- Child and forced labor
- Gambling casinos and equivalent enterprises or hotels hosting such facilities
- Any business with a focus on political or religious goals
- Additional companies that are on WWF's grey list:
  - Large hydropower
  - Large Scale Agribusiness and Agricultural Traders
  - Industrial Fisheries and Fish Trader
  - Petro chemicals and fertilizers
  - Extractives (incl. cement, steel, aluminum)
  - Shipping

LRF specific exclusions, not included in the LRF Support Provisioning and Asset Management Guidelines, but required under the ESMS:

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- Any activities that destroy or degrade natural habitat
- Any activities that may result in involuntary resettlement